

Good financial reporting induces

By Edward Kayiwa

Last year, Prime Minister Dr Ruhakana Ruganda advised accounting professionals to adhere to high levels of transparency in financial reporting. He said this would attract both local and foreign investors.

Ruganda described financial reporting as essential in attracting investment in the key production sectors of the country, to stimulate development and structural growth of the economy.

He said transparent financial records are a prerequisite for growth, expansion and value addition of any business. Ruganda added that companies with fuller disclosure of high quality financial statements usually get more trust from investors and other stakeholders.

In its 2015 report, the Global Entrepreneurs Monitor credited Uganda for having the highest entrepreneurship growth rate in the world, although half of the businesses did not live to celebrate their first anniversary.

Closure rate

The closure rate, according to Bank of Uganda deputy governor Dr Louis Kasenkende, is closely linked to governance of the young enterprises which is very informal. Kasenkende said most of the enterprises are run without transparent rules, records and procedures, which hinders their growth and expansion.

"Most of these SMEs are owned by sole proprietors or by a group of related family members, and one of the proprietors is often the manager, and their financial management tends to be informal," he said during the Financial Reporting Awards



CPA Frederick Kibedi, the ICPAU vice-president and partner PKF Uganda (third right) with the team from Centenary Bank at the awards ceremony

(FiRe) at the Kampala Serena Hotel. Financial Reporting is essentially a way of following standard practices to give a company's revenues, expenses, profits, capital and cash flow. A financial report should reveal whether or not the business is making a profit



SNV Uganda retains the prestigious IPSAS award for the third time



Michael J. O'Mahony
SNV Country Director

It was a landmark win for SNV Uganda at the 2017 Financial Reporting (FiRe) Awards ceremony, emerging overall winner of the FiRe Awards under the NGO category and scooping the International Public Sector Accounting Standards (IPSAS) special award for the third time in three consecutive years. SNV first won the IPSAS award in 2015, emerging overall winner of the coveted award which was introduced in 2015 to recognise public sector entities that use the International Public Sector Accounting Standards in the preparation of their financial statements. It is also the second time since the FiRe awards were introduced in 2014 that SNV is emerging overall winner of the FiRe awards under the NGO category.

SNV Uganda Country Director Michael O'Mahony shares his insights on what makes SNV stand out from the crowd.

Question: Can you shed some light on what it is like to lead in an organisation like SNV and what kind of culture you promote amongst your staff?

Michael: I lead a team of staff who are all experts in specific fields, with in-depth understanding of the local context in which we work. Our staff come from diverse cultural and technical backgrounds, with a majority being Ugandan nationals. SNV is a results driven organisation, we believe in giving our customers (the donor organisations that support our work) value for their money by ensuring that we deliver on our commitments and obligations. This results driven culture is deeply engrained in our work and each member of staff works towards this goal by setting personal goals that they are then measured against during the course of the year. Because of this culture, my work as a Country Director is made easy because staff are self-monitoring and evaluating themselves to ensure that they support the organisation to deliver on its targets.

Question: What motivated an NGO like SNV to start using the International Public Sector Accounting Standards in your financial reports?

As an organisation that is largely funded by donor agencies, transparency over the use of the donor funds is critical because without credibility and trust from them, we would not be able to sustain our work in Uganda. SNV is currently supported by over 13 donors and it is important to have precise estimates of income and expenditure and be able to report to our donor partners in real time. Using the IPSAS framework has greatly helped us achieve this. IPSAS has also helped us improve on our overall programme management because IPSAS supports the results based management approach that we use.

Question: You emerged the overall winner under the NGO category. What did you do differently that made you win?

Michael: Every year we strive to improve and be the best in all areas of our operations. Results without evidence are no results at all. We have to be visible and these results should be able to speak for themselves. I believe that's what came through in our Annual report this year.



SNV staff (L-R) Kenneth Kosa (Country Controller), Dorah Egunya (Communications Officer) and Apollo Muryana (Project Manager) receiving one of their FiRe awards

Question: You have been in Uganda since 1989, what are you doing now that is different from what you did then?

Michael: SNV has evolved over the years from being a volunteer organisation sending Dutch Volunteers to Africa, providing funding to government institutions to working as a capacity building organisation that partners with grass root organisations to escalate development solutions at the lower local government level. What is unique about our way of working is that we don't come with tailor made solutions, rather we simply support people to find their own solutions which in the long run is more sustainable than simply giving them money. This approach has helped us expand our work to over 100 districts with minimal staffing. Because we are driven by the need to ensure sustainability of our work, we have built the capacity of over 90 local organisations who are driving change in their communities and creating jobs for others.

I strongly believe that demand-driven approaches, carefully fashioned to suit the local context and inspired and fed by a robust global knowledge base like we have is what is needed to realise the required breakthroughs in view of local needs and global challenges.

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Dr Louis Kasenkende, the deputy governor BOU

or suffering a loss. It also compares assets and liabilities, where the company got its capital. It also considers whether all the profit was reinvested and if there is enough capital for future growth.

Kasenkende said beyond a relatively small size, the investment needs of a firm outstrip the financial resources of a sole proprietor, but because of informal financial management, enterprises struggle to access capital for expansion.

He said in Uganda, informality is limiting firms from accessing equity capital, through private equity placements and selling shares on the stock market, leaving debt finance as the only available option.

Maturity of debt

Kasenkende said maturity of debt finance is often shorter than the payback period of capital investments, forcing young enterprises to devote a large share of their revenues to servicing their debt.

He said as businesses expand, micro-management becomes increasingly untenable, requiring professional and technical expertise in management.

According to the government's accountant general, Lawrence Semakula, transparency, an ethical accounting practice boosts stakeholder confidence, and makes decision making in organisations easy, time saving and cheap.

"As an accountant, you must embrace full disclosure for all accounting processes in the organisation to promote accurate financial reporting and stakeholder confidence," he said.

Semakula said accurate financial reporting gives investors, creditors, and stakeholders an idea of the financial integrity and creditworthiness of the company, on which they can base decisions to either borrow or expand.

He also noted that during tax assessment, the government uses qualified financial reports to ensure that companies are neither cheating nor being unfairly taxed.

Semakula said good accounting and reporting are a prerequisite to financial sector development and private sector development, which in turn spurs economic growth.

Semakula added that good reports can also contribute to foreign direct and portfolio investment and help to mobilize domestic savings.

He said allowing investors to evaluate corporate prospects and make informed investment and voting decisions, results in a lower cost of capital and a better allocation of company resources.

According to The Institute of Certified Public Accountants of Uganda (ICPAU) vice president, Frederick Kibedi, accurate financial reporting also helps companies in early detection of costly mistakes and internal wrong doings by examining discrepancies in the numbers.

"If an error has been made, or an illegal activity is taking place, reconciliation activities can find them. There is no better way to catch it than through discrepancies in the numbers. That is why companies spend a lot of time on reconciling their books of accounts and checking each entry," he said.

Kibedi said more than anything else, accurate financial statements induce trust in the company, as investors need a sign that a company is doing well so that they can put in their hard earned money.

In the corporate setting, publishing accurate financial statements has an occupational impact as it delivers an accurate message about the firm's financial situation in a clear, easy-to-understand manner.

Recently, the central bank had to close Crane Bank, which was one of the leading banks in the country because of forging financial statements.

According to BOU, the bank's proprietor, Sudhir Ruparelia, perpetrated sophisticated false accounting and embezzled over \$400B.

BOU governor, Emmanuel Tumusiime-Mutebile said mismanagement led to gross under-capitalisation, which posed a risk to the entire banking sector, as its (Crane Bank) liabilities grossly exceeded its assets.

Kibedi said in order to optimise the accounts payable and accounts receivable cycles, accuracy of financial statements plays a key role. He said good financial reports are also good for monitoring progress against previous plans and improving projections of where the business is going.

According to the ICPAU president, Protazio Begumisa, more organisations are appreciating the relevance of good financial reporting.

He said the value of the accountability profession is increasingly becoming well-articulated within financial reporting, bringing value addition in business processes and the economy.

He noted that organisations which scored below average at their first participation in the FiRe awards have demonstrated tremendous improvement in financial reporting with their subsequent participation over the years.

"This is evidenced in increased funding for Non-Governmental Organisations, increase in shareholder

numbers for listed entities, among others. Good financial reporting is therefore, undoubtedly a measure for business success," Begumisa said.

Held for the first time in 2011, the CPA Uganda FiRe Awards have phenomenally become a healthy gauge for the compliance trends among corporate firms.



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